

INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION



9/27

WASHINGTON 25, D. C.

Industry Circular No. 65-27

September 23, 1965

TAX-EXEMPT MINGLING AND TREATMENT OF DISTILLED SPIRITS

Proprietors of distilled spirits plants
and others concerned:

Purpose. This circular is issued to inform you of additional mingling and treatment of distilled spirits which will be permitted on bottling premises qualified for rectification, without being subject to payment of the rectification tax.

Statutory Exemption. Section 5025 of the Internal Revenue Code of 1954 has been amended (effective October 1, 1965) by the addition of a new subsection (k), which provides that the rectification tax shall not apply to the mingling of distilled spirits of the same class and type, or to the treatment of distilled spirits in such a manner as not to change their class and type. Also, conforming amendments have been made in sections 5025(f) (1), (2), and (4) by limiting the provisions thereof to spirits differing as to type.

Caution. The standards of identity prescribed in 27 CFR Part 5, and the rules for determining homogeneity prescribed in 26 CFR Part 201 are still in effect. The standards of identity will be applied both in determining that spirits to be mingled are of the same class and type and in determining that contemplated treatment of spirits will not change the class and type. The rules for determining homogeneity also must be considered in respect to mingling operations in order to determine whether the mingling requires an approved formula on Form 27-B Supplemental (under section 5025(k)) or does not require an approved formula (under section 5025(e)(5)). You are cautioned, therefore, to give careful consideration to the labeling provisions applicable to the finished product when planning and submitting new formulas.

Mingling and Treatment of Distilled Spirits Under Section 5025(k), I.R.C. Authorized treatment under this section will include the addition of harmless coloring, flavoring, and blending materials to distilled spirits or the extraction of various materials from distilled spirits, provided

such treatment does not result in a change in the class and type of the spirits under the provisions of 27 CFR Part 5. Authorized treatment will also include the addition of caramel to rum, and the reduction, with a sugar-water solution, of bulk cordials imported above bottling proof.

Subject to the "Caution" stated above, examples of tax-exempt mingling of distilled spirits which you may be permitted to conduct under this new section of the law are as follows:

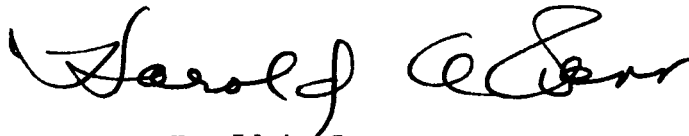
1. Mingling of gins of the same type, or of vodkas, which were produced at different distilleries or by different distillers.
2. Mingling of straight bourbon whiskies which were produced at different distilleries or by different distillers, regardless of any difference in the ages of such whiskies.
3. Mingling of brandies of the same type which were produced at different distilleries or by different distillers, regardless of the ages of such brandies.

Formulas. You should submit new formulas for any blending, mingling, or treatment of spirits which may be tax-exempt under the new provisions of law, and for which you do not now have approved tax-exempt formulas. In some instances, we may require samples of your products for analysis to determine their class and type. A single formula may be submitted to cover both a blending under section 5025(f) of the Code and a subsequent treatment of the resulting blend under section 5025(k). Current formulas approved as tax-exempt blending or mingling of spirits, either of the same or of different class and type, need not be resubmitted.

It is suggested that you surrender for cancellation those formulas which will not be used after the above change in the law becomes effective. In this connection, you may wish to review all your existing formulas and also surrender for cancellation those which are no longer used.

Effective Date. The amendments of section 5025 of the Code, as discussed above, will become effective on October 1, 1965, and will be covered by appropriate amendments to the regulations in 26 CFR Part 201.

Inquiries. Inquiries concerning this circular should refer to its number and should be addressed to your Assistant Regional Commissioner (Alcohol and Tobacco Tax).



Harold A. Serr
Director, Alcohol and Tobacco Tax Division